BUYER'S DISCLOSURE STATEMENT

SHARED EQUITY PROGRAM
City of San Luis Obispo

As a participant in the City of San Luis Obispo's Shared Equity Program, you are buying a home at an affordable price that is below fair market value. In exchange for giving you the opportunity to buy your house at an affordable price, the City will require you to sign a Promissory Note, Deed of Trust and an Occupancy, Use, Refinancing, and Shared Equity Agreement (the "Agreement"). **The Agreement and the Deed of Trust will be recorded against your property**. These documents will ensure that the City Loan is repaid, along with any interest, and are enforceable by the City.

The Promissory Note, Deed of Trust and the Agreement set forth many conditions that you must meet, including these major provisions:

- Your home must be sole and principal place of residence. You are not allowed to lease or rent your home to anyone. (See Section 2 of the Agreement).
- Your home, including landscaping, must be kept in good condition and repair and maintained in a neat, clean, and orderly condition and in accordance with all applicable laws. (See Section 3 of the Agreement.)
- You agree to keep a standard homeowner's insurance policy. Your insurance policy must name the City as an "additional insured" and be in an amount equal to the replacement value of the home. (See Section 3 of the Agreement).
- When you are ready to sell your home, you must pay the City a share of your home's appreciation in value and a share of the difference between the affordable price and the fair market appraised value of your home. An example is described in this disclosure. (See Section 7 of the Agreement.)
- The Agreement places controls on the refinancing of your first mortgage loan and does not allow you to take out a junior loan or equity line of credit. (See Section 10 of the Agreement.)

This Disclosure Statement explains only the major provisions of the Promissory Note, Deed of Trust, and Agreement. **You should, of course, read the entire Promissory Note, the Agreement, and the Deed of Trust and become completely familiar with them.**[1] If there is any conflict between this Disclosure Statement and the Agreement, Deed of Trust, and Promissory Note, the terms of the Agreement, Deed of Trust, and Promissory Note will prevail.

Numerical examples are included in this Disclosure Statement to help you better understand the concepts, terms, and provisions of the Buyer's Agreement and Promissory Note. Please be aware that these are simply to show how things work and that they are not intended to represent your specific situation. Numbers have been rounded to the nearest $100 so that they are easier to understand.

A. REQUIREMENTS IN EFFECT FOR 45 YEARS

The requirements in the Agreement apply until the earlier of (i) forty-five years from the date of the Agreements; or (ii) the date you sell or transfer your home and pay all amounts due to the City.

B. PRINCIPAL RESIDENCE; NO RENTAL OF YOUR HOME

Your home must be your sole principal place of residence. Your home may not be rented or leased, nor may you allow it to remain vacant.

If you violate this provision, the City may sue to prevent you from renting out your home, and you will owe the City any rent you have received. You will also be in default under the Agreement and the Promissory Note, and the City may require you to pay all amounts due to the City.

C. MAINTAINING YOUR HOME/ PROPERTY INSURANCE

By signing the Agreement, you agree to keep your home and landscaping in good repair and in neat, clean, and orderly condition. You cannot allow the property to deteriorate so that it would be defined as a nuisance by the San Luis Obispo Municipal Code, or permit your property to be used for the commission of any misdemeanor or felony. You also agree to keep a standard homeowner's insurance policy, with the City named as an additional insured. The insurance policy must have a value at least equal to the replacement value of the home. Every five years (or every year, if provided by the policy), the replacement value will be reviewed and adjusted as needed.

D. AMOUNT OWED TO CITY

The Promissory Note that you must sign shows that you owe the City the difference between the affordable price at which you purchased your home and its fair market appraised value. This amount is called the "Below Market Benefit." When you sell or transfer your home, you will owe the City some percentage of the difference between the affordable price at which you purchased your home and the price at which you sell your home. The percentage is highest in the first two years after you buy your home, and is lowest after you have owned your home for 6 years or more. The examples below explain how the amount due to the City is calculated.

The Shared Equity Percentage is calculated by dividing the Below Market Benefit by the appraised fair market value of your home at the time you bought it. For instance, if the initial appraised fair market value of your home when you bought it was $400,000 and the affordable price was $280,000, the amount of the Below Market Benefit would be $120,000.

Shared Equity % = City Loan ÷ Initial Fair Market Value

= $120,000 ÷ $400,000 = 30%

The longer you own your home, the lower percentage of appreciation you will owe the City. The table below shows this for a situation where the shared equity percentage is 30%.

YEARS OWNED	SHARED EQUITY PERCENTAGE*
0-2	100%
3	100% **[equals 30% + 75%; 100% max]**
4	80% **[equals 30% + 50%]**
5	55% **[equals 30% + 25%]**
6 or more	30% **[equals 30% above]**

*The shared equity percentage cannot exceed 100%.

The examples below demonstrate that it is very advantageous to own your home for six years or more.

EXAMPLE 1 You sell your home after living in it for 8 years.

Because you have owned your home for more than 6 years, the City will receive 30 percent of the difference between the original affordable price of your home and the price at which you sell it, minus your real estate commission and closing costs (the "Net Proceeds of Sale"). If you sell your home for $600,000, the following would result:

Fair Market Resale Price	$ 600,000
Initial Affordable Price	280,000
Gross Appreciation	$ 320,000
Real Estate Commission & Costs (est.)	$ 36,000
"Net Proceeds of Sale"	$ 284,000
City Share of Appreciation Amount (30% of $284,000)	$ 85,200
Share of Appreciation That You Keep	$ 198,800

The total you would owe the City is the following:

TOTAL AMOUNT YOU OWE CITY:	**$ 85,200**
TOTAL PROCEEDS TO YOU:	**$ 514,800**

You would pay your real estate commission, bank mortgage, and all other costs out of the proceeds to you.

EXAMPLE 2 You sell your home after living in it for 3 years. The initial appraised fair market value of your home when you bought it was $400,000; the affordable price was $280,000. The amount of the Below Market Benefit was $120,000.

Shared Equity % = City Loan ÷ Initial Fair Market Value

= $120,000 ÷ $400,000 = 30%

Because you have owned your home for only 3 years, the City will receive 100 percent of the difference between the original affordable price of your home and the price at which you sell it, minus your real estate commission and closing costs (the "Net Proceeds of Sale"). If you sell your home for $500,000, the following would result:

Fair Market Resale Price	$ 500,000
Initial Affordable Price	280,000
Gross Appreciation	$ 220,000
Real Estate Commission & Costs (est)	$ 30,000
"Net Proceeds of Sale"	$ 190,000
City Share of Appreciation Amount (100% of $190,000)	$ 190,000
Share of Appreciation That You Keep	$ 0

The total you would owe the City is the following:

TOTAL AMOUNT YOU OWE CITY:	**$ 190,000**
TOTAL PROCEEDS TO YOU:	**$ 310,000**

You would pay your real estate commission, bank mortgage, and all other costs out of the proceeds to you. Retaining ownership of your home for 6 years or more results in substantial benefits to you.

E. SELLING YOUR HOME

Under the terms of the Agreement, when you decide to sell your home and have selected a buyer, you must notify the City. You must provide the City with the sales contract, the appraisal, amount of any real estate commission, the final escrow statement, and a certification from you and the buyer that you did not receive any payment in addition to that shown in the sales contract. You must sell the property at a price that is at least 95% of fair market value.

Fair market value can be established by a real estate appraiser approved by the City. If possible, the appraisal will be based on the sales prices of homes similar to yours which are sold in your area during the preceding three (3)-month period. You will be responsible for the cost of an appraisal.

You and the City may also set the Fair Market Value of your home by mutual agreement based on comparable sales instead of relying on an appraiser. Both you and the City would have to agree on the final Fair Market Value amount. If you and the City fail to agree on the Fair Market Value, either you or the City can require use of the appraisal method.

You must pay all amounts due to the City when you sell your home.

F. REFINANCE OF YOUR FIRST MORTGAGE; NO JUNIOR LOANS

The Agreement allows you to refinance your first mortgage loan in certain instances. As a requirement of refinancing, first mortgage lenders usually require that the City subordinate its Agreements to them. The City will only subordinate the Agreement and City Deed of Trust if the following conditions are met:

1. Following the refinance, all the debt on your property, including the principal and Contingent Interest on the City Loan, must not exceed 90 percent of the value of the property. However, if the *existing* balance on your *first* mortgage exceeds 90 percent of your property's value, the City will permit the refinancing if the new loan will reduce your monthly mortgage payments.

2. The new first mortgage loan must be fully amortized with a fixed rate of interest. The City will not subordinate to interest-only loans, so-called "option ARMs," loans that permit negative amortization, or loans that require a balloon payment after a period of time.

3. The proceeds of the refinancing may only be used to pay off your first mortgage and to pay for closing costs and home improvements. The new loan may not exceed your ability to pay.

You are not permitted to take out a junior loan or equity line of credit. If you take out a junior loan, you will be in default under the Agreement and the Deed of Trust.

G. DEFAULT PROVISIONS

If you violate any provisions of the Agreement, the Promissory Note, or the Deed of Trust, you are considered to be in default under the Agreement. Also, if you default under any other loan on the home, such as your first mortgage loan, you would also be considered to be in default under the Agreement. If you do not correct the violation, the City could require you to pay the City all amounts due to it. The City could also go to court and get a court order to enforce the provisions of the Agreement. In addition, if you fail to meet the requirements of the Agreement, the City has the right to foreclose and take your home.

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Please sign the enclosed copy of this Borrower Disclosure Statement in the space provided below and return it to: City of San Luis Obispo, 919 Palm Street, San Luis Obispo, 93401. Attention: Community Development Director.

I have read and understand the above Borrower Disclosure Statement.

By: ______________ Date:____________________
Signature of Borrower

____
Printed Name of Borrower

________________ Date:____________________
Signature of Borrower

____
Printed Name of Borrower